

U.S. ENVIRONMENTAL PROTECTION AGENCY ENVIRONMENTAL FINANCIAL ADVISORY BOARD

July 18, 2003

Honorable Marianne L. Horinko
Acting Administrator
U.S. Environmental Protection Agency
Washington, DC 20460

Dear Acting Administrator Horinko:

The Environmental Financial Advisory Board (EFAB) is pleased to provide you with its findings and recommendations regarding *Environmental Management Systems*. The Board's work was led by its Cost-Effective Environmental Management Workgroup, chaired by Michael Deane. In particular, the Board would like to recognize the excellent work of Jim Horne in the Office of Water and Bonnie Barkett of the San Francisco regional office.

Over the past several years, the EPA has done remarkable work in encouraging regulated entities to develop and implement formal environmental management systems (EMS). From the development of its EMS position statement and implementation policy to its participation in national and local conferences and its ever improving web site, EFAB commends the Agency's efforts.

On November 8, 2001, EFAB co-sponsored, with Office of Water and Region 9, a workshop on EMS designed to examine the possible financial implications of adopting an EMS. The Board wanted to find out what the link is, if any exists, between EMS implementation and improved financial performance. The workshop convened two panels of experts from the financial services industry (public and private) to discuss their experiences with implementing an EMS. The workshop explored whether or not the financial services industry considers EMS and EMS certification as a factor in its decision-making; if so in what way(s) is this occurring and, if not, what measures, incentives or other factors might encourage organizations to take EMS into account? The workgroup developed a detailed summary of the workshop and a copy of this summary is enclosed for your convenience.

The Board believes that when an EMS is properly implemented (including the ISO 14001 model), organizations have the potential to improve their corporate image, realize financial savings through improved efficiency, achieve a competitive advantage, and improve environmental performance. While there have been a few examples of positive responses from the financial community, the EFAB workshop illustrated the need for continuing and expanded dialogue to help educate financial representatives on the specific benefits to public and private organizations of EMS implementation. To this end, EPA's Office of Water, as part of its Public

Entity EMS Resource Center (PEER) Initiative, recently sponsored a two day workshop at the Wharton School of Finance at the University of Pennsylvania. This workshop featured presentations by several public entities that have developed EMSs and various representatives of the financial community. This workshop made it clear that the level of understanding of EMS benefits by the financial community is increasing. We understand that EPA hopes to help increase this understanding through continued communication, and we applaud this effort. There were other common themes found throughout the summary of information that was gathered and we enclose those findings along with the Board's recommendations.

We hope that you will find the recommendations constructive and useful. The Board is prepared to take any follow-up actions that are consistent with its charter. The members of EFAB appreciate the continuing opportunity to advise and assist EPA on important priorities. If you would like to discuss our findings and recommendations in more detail, we would be happy to meet with you and/or other members of Agency management you deem appropriate.

Sincerely,

/s/

A. Stanley Meiburg
Executive Director

Enclosures

cc: Stephen L. Johnson, Acting Deputy Administrator
Tracy Mehan, Assistant Administrator for Water
Linda M. Combs, Chief Financial Officer
Joseph L. Dillon, Comptroller
Jim Horne, Office of Water

Findings and Recommendations from the Environmental Management Systems Workshop

Findings

1. Environmental performance is a good proxy for general management quality.
2. Environmental management is a big challenge for corporate management. The environment and environmental performance have significant impacts on corporate financial performance.
3. EMS implementation does not have a direct influence with bond rating agencies' assessment of organizations.
4. Third party certification/verification is very important in establishing credibility with regard to EMS implementation.
5. The Socially Responsible Investments area is more concerned about EMS. Although the financial services industry is beginning to understand the benefits of EMS, the main barrier is the investment advisor's fiduciary responsibility to maximize investment returns.
6. There is yet little systematic data regarding implementation of EMS and few objective analyses of the performance of organizations that have implemented EMS.
7. It is difficult for the financial services industry to determine benchmarks that would establish value for EMS implementation since such implementation is voluntary and very sporadic among regulated entities.
8. There have been some instances in which the insurance industry has recognized the risk management benefits of EMS implementation and therefore provided financial benefit to the implementing entity. However, in general, there is no recognition of any direct financial benefit from EMS implementation by public or private entities.
9. Comprehensive national data on EMS is lacking. Compiled information that does exist focuses on operations and compliance rather than financial and business strategy.

Recommendations to EPA

10. EPA should partner with environmental trade and industry organizations to develop materials and conduct workshops for development and implementation of EMS in the water industry.
11. EPA should provide incentives to regulated entities that implement proven, cost-effective EMS (e.g., point savings in SRF loans).
12. EPA should monitor existing pilot programs for results and try to identify direct financial benefits.
13. EPA should prepare case studies of tangible examples of the value (financial benefits) of EMSs and the relationship between EMS and finance.
14. EPA should support and promote third party evaluation and certification of EMS.
15. EPA should support development of a national database that provides sufficient data for benchmarking the financial value of effective EMS.